

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE ACT OF 1986

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Subtitle A—Income Taxes

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CHAPTER 1—NORMAL TAXES AND SURTAXES

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Subchapter A—Determination of Tax Liability

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PART I—TAX ON INDIVIDUALS

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SEC. 1. TAX IMPOSED.

(a) * * *

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(f) PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET; ADJUSTMENTS IN TAX TABLES SO THAT INFLATION WILL NOT RESULT IN TAX INCREASES.—

(1) * * *

* * * * *

(8) PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET.—

(A) IN GENERAL.—With respect to taxable years beginning after December 31, **[2004]** 2002, in prescribing the tables under paragraph (1)—

(i) * * *

* * * * *

(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage shall be determined in accordance with the following table:

For taxable years beginning calendar year	The applicable in percentage is
[2005]	180
2003, 2004, and 2005	200
2006	187

2007	193
2008 and thereafter	200.

* * * * *

(h) **MAXIMUM CAPITAL GAINS RATE.**—

(1) **IN GENERAL.**—If a taxpayer has a net capital gain for any taxable year, the tax imposed by this section for such taxable year shall not exceed the sum of—

(A) * * *

(B) **[10]** 5 percent of so much of the adjusted net capital gain (or, if less, taxable income) as does not exceed the excess (if any) of—

(i) * * *

* * * * *

(C) **[20]** 15 percent of the adjusted net capital gain (or, if less, taxable income) in excess of the amount on which a tax is determined under subparagraph (B);

* * * * *

[(2) REDUCED CAPITAL GAIN RATES FOR QUALIFIED 5-YEAR GAIN.—

[(A) REDUCTION IN 10-PERCENT RATE.—In the case of any taxable year beginning after December 31, 2000, the rate under paragraph (1)(B) shall be 8 percent with respect to so much of the amount to which the 10-percent rate would otherwise apply as does not exceed qualified 5-year gain, and 10 percent with respect to the remainder of such amount.

[(B) REDUCTION IN 20-PERCENT RATE.—The rate under paragraph (1)(C) shall be 18 percent with respect to so much of the amount to which the 20-percent rate would otherwise apply as does not exceed the lesser of—

[(i) the excess of qualified 5-year gain over the amount of such gain taken into account under subparagraph (A) of this paragraph; or

[(ii) the amount of qualified 5-year gain (determined by taking into account only property the holding period for which begins after December 31, 2000), and 20 percent with respect to the remainder of such amount. For purposes of determining under the preceding sentence whether the holding period of property begins after December 31, 2000, the holding period of property acquired pursuant to the exercise of an option (or other right or obligation to acquire property) shall include the period such option (or other right or obligation) was held.]

[(3)] (2) NET CAPITAL GAIN TAKEN INTO ACCOUNT AS INVESTMENT INCOME.—For purposes of this subsection, the net capital gain for any taxable year shall be reduced (but not below zero) by the amount which the taxpayer takes into account as investment income under section 163(d)(4)(B)(iii).

[(4) ADJUSTED NET CAPITAL GAIN.—For purposes of this subsection, the term “adjusted net capital gain” means net capital gain reduced (but not below zero) by the sum of—

[(A) unrecaptured section 1250 gain; and

[(B) 28-percent rate gain.]

(3) *ADJUSTED NET CAPITAL GAIN.*—For purposes of this subsection, the term “adjusted net capital gain” means the sum of—

(A) *net capital gain (determined without regard to paragraph (11)) reduced (but not below zero) by the sum of—*

(i) *unrecaptured section 1250 gain, and*

(ii) *28-percent rate gain, plus*

(B) *qualified dividend income (as defined in paragraph (11)).*

[(5)] (4) 28-PERCENT RATE GAIN.—For purposes of this subsection, the term “28-percent rate gain” means the excess (if any) of—

(A) * * *

* * * * *

[(6)] (5) COLLECTIBLES GAIN AND LOSS.—For purposes of this subsection—

(A) * * *

* * * * *

[(7)] (6) UNRECAPTURED SECTION 1250 GAIN.—For purposes of this subsection—

(A) **IN GENERAL.**—The term “unrecaptured section 1250 gain” means the excess (if any) of—

(i) the amount of long-term capital gain (not otherwise treated as ordinary income) which would be treated as ordinary income if section 1250(b)(1) included all depreciation and the applicable percentage under section 1250(a) were 100 percent, over

* * * * *

[(8)] (7) SECTION 1202 GAIN.—For purposes of this subsection, the term “section 1202 gain” means the excess of—

(A) the gain which would be excluded from gross income under section 1202 but for the percentage limitation in section 1202(a), over

(B) the gain excluded from gross income under section 1202.

[(9) QUALIFIED 5-YEAR GAIN.—For purposes of this subsection, the term “qualified 5-year gain” means the aggregate long-term capital gain from property held for more than 5 years. The determination under the preceding sentence shall be made without regard to collectibles gain, gain described in paragraph (7)(A)(i), and section 1202 gain.]

[(10)] (8) COORDINATION WITH RECAPTURE OF NET ORDINARY LOSSES UNDER SECTION 1231.—If any amount is treated as ordinary income under section 1231(c), such amount shall be allocated among the separate categories of net section 1231 gain (as defined in section 1231(c)(3)) in such manner as the Secretary may by forms or regulations prescribe.

[(11)] (9) REGULATIONS.—The Secretary may prescribe such regulations as are appropriate (including regulations requiring reporting) to apply this subsection in the case of sales

and exchanges by pass-thru entities and of interests in such entities.

[(12)] (10) PASS-THRU ENTITY DEFINED.—

For purposes of this subsection, the term “pass-thru entity” means—

(A) a regulated investment company;

* * * * *

(11) DIVIDENDS TAXED AS NET CAPITAL GAIN.—

(A) *IN GENERAL.*—For purposes of this subsection, the term “net capital gain” means net capital gain (determined without regard to this paragraph), increased by qualified dividend income.

(B) *QUALIFIED DIVIDEND INCOME.*—For purposes of this paragraph—

(i) *IN GENERAL.*—The term “qualified dividend income” means dividends received during the taxable year from domestic corporations.

(ii) *CERTAIN DIVIDENDS EXCLUDED.*—Such term shall not include—

(I) any dividend from a corporation which for the taxable year of the corporation in which the distribution is made, or the preceding taxable year, is a corporation exempt from tax under section 501 or 521,

(II) any amount allowed as a deduction under section 591 (relating to deduction for dividends paid by mutual savings banks, etc.), and

(III) any dividend described in section 404(k).

(iii) *EXCLUSION OF CERTAIN DIVIDENDS.*—Such term shall not include any dividend on any share of stock—

(I) with respect to which the holding period requirements of section 246(c) are not met, or

(II) to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

(C) SPECIAL RULES.—

(i) *AMOUNTS TAKEN INTO ACCOUNT AS INVESTMENT INCOME.*—Qualified dividend income shall not include any amount which the taxpayer takes into account as investment income under section 163(d)(4)(B).

(ii) *EXTRAORDINARY DIVIDENDS.*—If an individual receives, with respect to any share of stock, qualified dividend income from 1 or more dividends which are extraordinary dividends (within the meaning of section 1059(c)), any loss on the sale or exchange of such share shall, to the extent of such dividends, be treated as long-term capital loss.

(iii) *TREATMENT OF DIVIDENDS FROM REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.*—A dividend received from a regulated investment company or a real estate investment trust shall be

subject to the limitations prescribed in sections 854 and 857.

(i) RATE REDUCTIONS AFTER 2000.—

(1) 10-PERCENT RATE BRACKET.—

(A) * * *

(B) INITIAL BRACKET AMOUNT.—For purposes of this paragraph, the initial bracket amount is—

(i) \$14,000 *[(*\$12,000 in the case of taxable years beginning before January 1, 2008)*]* *(\$12,000 in the case of taxable years beginning after December 31, 2005, and before January 1, 2008)* in the case of subsection (a),

* * * * *

[(C) INFLATION ADJUSTMENT.—In prescribing the tables under subsection (f) which apply with respect to taxable years beginning in calendar years after 2000—

[(i) the Secretary shall make no adjustment to the initial bracket amount for any taxable year beginning before January 1, 2009,

[(ii) the cost-of-living adjustment used in making adjustments to the initial bracket amount for any taxable year beginning after December 31, 2008, shall be determined under subsection (f)(3) by substituting '2007' for '1992' in subparagraph (B) thereof, and

[(iii) such adjustment shall not apply to the amount referred to in subparagraph (B)(iii). If any amount after adjustment under the preceding sentence is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.]

(C) INFLATION ADJUSTMENT.—*In prescribing the tables under subsection (f) which apply with respect to taxable years beginning in calendar years after 2000—*

(i) the Secretary shall make no adjustment to the \$12,000 initial bracket amount for any taxable year,

(ii)(I) the Secretary shall make no adjustment to the \$14,000 initial bracket amount for any taxable year beginning before January 1, 2004,

(II) the cost-of-living adjustment used in making adjustments to the \$14,000 initial bracket amount for any taxable year beginning during 2004 or 2005 shall be determined under subsection (f)(3) by substituting "2002" for "1992" in subparagraph (B) thereof, and

(III) the cost-of-living adjustment used in making adjustments to the \$14,000 initial bracket amount for any taxable year beginning after December 31, 2008, shall be determined under subsection (f)(3) by substituting "2007" for "1992" in subparagraph (B) thereof, and

(iii) the adjustments under clause (ii) shall not apply to the amount referred to in subparagraph (B)(iii).

If any amount after adjustment under the preceding sentence is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.

6

(2) REDUCTIONS IN RATES AFTER JUNE 30, 2001.—In the case of taxable years beginning in a calendar year after 2000, the corresponding percentage specified for such calendar year in the following table shall be substituted for the otherwise applicable tax rate in the tables under subsections (a), (b), (c), (d), and (e).

[In the case of taxable years beginning during calendar year:	The corresponding percentages shall be substituted for the following percentages:			
	28%	31%	36%	39.6%
2001	27.5%	30.5%	35.5%	39.1%
2002 and 2003	27.0%	30.0%	35.0%	38.6%
2004 and 2005	26.0%	29.0%	34.0%	37.6%
2006 and thereafter	25.0%	28.0%	33.0%	35.0%

In the case of taxable years beginning during calendar year:	The corresponding percentages shall be substituted for the following percentages:			
	28%	31%	36%	39.6%
2001	27.5%	30.5%	35.5%	39.1%
2002	27.0%	30.0%	35.0%	38.6%
2003 and thereafter	25.0%	28.0%	33.0%	35.0%

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PART IV—CREDITS AGAINST TAX

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Subpart A—Nonrefundable Personal Credits

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SEC. 24. CHILD TAX CREDIT.

(a) ALLOWANCE OF CREDIT.—

(1) IN GENERAL.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year with respect to each qualifying child of the taxpayer an amount equal to the per child amount.

(2) PER CHILD AMOUNT.—For purposes of paragraph (1), the per child amount shall be determined as follows:

In the case of any taxable year beginning in	The per child amount is
[2001, 2002, 2003, or 2004	\$600
[2005, 2006, 2007, or 2008	700]
2003, 2004, 2005	\$1,000
2006, 2007, or 2008	700
2009	800
2010 or thereafter	1,000
* * * * *	

PART VI—MINIMUM TAX FOR TAX PREFERENCES

* * * * *

SEC. 55. ALTERNATIVE MINIMUM TAX IMPOSED.

(a) * * *

(b) TENTATIVE MINIMUM TAX.—For purposes of this part—

(1) * * *

* * * * *

(3) MAXIMUM OF TAX ON NET CAPITAL GAIN OF NONCORPORATE TAXPAYERS.—The amount determined under the first sentence of paragraph (1)(A)(i) shall not exceed the sum of—

(A) * * *

(B) **10** 5 percent of so much of the adjusted net capital gain (or, if less, taxable excess) as does not exceed the amount on which a tax is determined under section 1(h)(1)(B), plus(C) **20** 15 percent of the adjusted net capital gain (or, if less, taxable excess) in excess of the amount on which tax is determined under subparagraph (B), plus

(D) 25 percent of the amount of taxable excess in excess of the sum of the amounts on which tax is determined under the preceding subparagraphs of this paragraph.

¶In the case of taxable years beginning after December 31, 2000, rules similar to the rules of section 1(h)(2) shall apply for purposes of subparagraphs (B) and (C).¶ Terms used in this paragraph which are also used in section 1(h) shall have the respective meanings given such terms by section 1(h) but computed with the adjustments under this part.

* * * * *

(d) EXEMPTION AMOUNT.—For purposes of this section—

(1) EXEMPTION AMOUNT FOR TAXPAYERS OTHER THAN CORPORATIONS.—In the case of a taxpayer other than a corporation, the term “exemption amount” means—

(A) \$45,000 (**¶**\$49,000 in the case of taxable years beginning in 2001, 2002, 2003, and 2004) *\$64,000 in the case of taxable years beginning in 2003, 2004, and 2005* in the case of—

(i) * * *

* * * * *

(B) \$33,750 (**¶**\$35,750 in the case of taxable years beginning in 2001, 2002, 2003, and 2004) *\$43,250 in the case of taxable years beginning in 2003, 2004, and 2005* in the case of an individual who—

(i) * * *

* * * * *

SEC. 56. ADJUSTMENTS IN COMPUTING ALTERNATIVE MINIMUM TAXABLE INCOME.

(a) * * *

* * * * *

(d) ALTERNATIVE TAX NET OPERATING LOSS DEDUCTION DEFINED.—

(1) IN GENERAL.—For purposes of subsection (a)(4), the term “alternative tax net operating loss deduction” means the

net operating loss deduction allowable for the taxable year under section 172, except that—

(A) the amount of such deduction shall not exceed the sum of—

(i) the lesser of—

(I) the amount of such deduction attributable to net operating losses (other than the deduction [attributable to carryovers] described in clause (ii)(I)), or

* * * * *

(ii) the lesser of—

(I) the amount of such deduction attributable to the sum of carrybacks of net operating losses [for] *from* taxable years ending during 2001 [or 2002], 2002, 2003, 2004, or 2005 and [carryforwards] *carryovers* of net operating losses to taxable years ending during 2001 [and 2002], 2002, 2003, 2004, or 2005, or

* * * * *

SEC. 57. ITEMS OF TAX PREFERENCE.

(a) GENERAL RULE.—For purposes of this part, the items of tax preference determined under this section are—

(1) * * *

* * * * *

(7) EXCLUSION FOR GAINS ON SALE OF CERTAIN SMALL BUSINESS STOCK.—An amount equal to [42] 7 percent of the amount excluded from gross income for the taxable year under section 1202. [In the case of stock the holding period of which begins after December 31, 2000 (determined with the application of the last sentence of section 1(h)(2)(B)), the preceding sentence shall be applied by substituting “28 percent” for “42 percent”.]

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Subchapter B—Computation of Taxable Income

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PART I—DEFINITION OF GROSS INCOME, ADJUSTED GROSS INCOME, TAXABLE INCOME, ETC.

* * * * *

SEC. 63. TAXABLE INCOME DEFINED.

(a) * * *

* * * * *

(c) STANDARD DEDUCTION.—For purposes of this subtitle—

(1) * * *

* * * * *

(7) APPLICABLE PERCENTAGE.—For purposes of paragraph (2), the applicable percentage shall be determined in accordance with the following table:

For taxable years beginning in calendar year—	The applicable percentage is
2005	174
2003, 2004, and 2005	200
2006	184
2007	187
2008	190
2009 and thereafter	200
* * * * *	

PART VI—ITEMIZED DEDUCTIONS FOR INDIVIDUALS AND CORPORATIONS

* * * * *

SEC. 163. INTEREST.

(a) * * *

* * * * *

(d) LIMITATION ON INVESTMENT INTEREST.—

(1) * * *

* * * * *

(4) NET INVESTMENT INCOME.—For purposes of this subsection—

(A) * * *

(B) INVESTMENT INCOME.—The term “investment income” means the sum of—

(i) * * *

* * * * *

Such term shall include qualified dividend income (as defined in section 1(h)(11)(B)) only to the extent the taxpayer elects to treat such income as investment income for purposes of this subsection.

* * * * *

SEC. 168. ACCELERATED COST RECOVERY SYSTEM.

(a) * * *

* * * * *

(k) SPECIAL ALLOWANCE FOR CERTAIN PROPERTY ACQUIRED AFTER SEPTEMBER 10, 2001, AND BEFORE [SEPTEMBER 11, 2004] JANUARY 1, 2006.—

(1) * * *

(2) QUALIFIED PROPERTY.—For purposes of this subsection—

(A) IN GENERAL.—The term “qualified property” means property—

(i)(I) * * *

* * * * *

(iii) which is—

(I) acquired by the taxpayer after September 10, 2001, and before [September 11, 2004] January 1, 2006, but only if no written binding contract for the acquisition was in effect before September 11, 2001, or

(II) acquired by the taxpayer pursuant to a written binding contract which was entered into after September 10, 2001, and before **September 11, 2004** *January 1, 2006*, and

(iv) which is placed in service by the taxpayer before **January 1, 2005** *January 1, 2006*, or, in the case of property described in subparagraph (B), before **January 1, 2006** *January 1, 2007*.

(B) CERTAIN PROPERTY HAVING LONGER PRODUCTION PERIODS TREATED AS QUALIFIED PROPERTY.—

(i) * * *

(ii) ONLY **PRE-SEPTEMBER 11, 2004** *PRE-JANUARY 1, 2006*, BASIS ELIGIBLE FOR ADDITIONAL ALLOWANCE.—In the case of property which is qualified property solely by reason of clause (i), paragraph (1) shall apply only to the extent of the adjusted basis thereof attributable to manufacture, construction, or production before **September 11, 2004** *January 1, 2006*.

(C) EXCEPTIONS.—

(i) * * *

* * * * *

(iii) ELECTION OUT.—If a taxpayer makes an election under this clause with respect to any class of property for any taxable year, this subsection shall not apply to all property in such class placed in service during such taxable year. *The preceding sentence shall be applied separately with respect to property treated as qualified property by paragraph (4) and other qualified property.*

(D) SPECIAL RULES.—

(i) SELF-CONSTRUCTED PROPERTY.—In the case of a taxpayer manufacturing, constructing, or producing property for the taxpayer's own use, the requirements of clause (iii) of subparagraph (A) shall be treated as met if the taxpayer begins manufacturing, constructing, or producing the property after September 10, 2001, and before **September 11, 2004** *January 1, 2006*.

* * * * *

(4) 50-PERCENT BONUS DEPRECIATION FOR CERTAIN PROPERTY.—

(A) IN GENERAL.—In the case of 50-percent bonus depreciation property—

(i) paragraph (1)(A) shall be applied by substituting “50 percent” for “30 percent”, and

(ii) except as provided in paragraph (2)(C), such property shall be treated as qualified property for purposes of this subsection.

(B) 50-PERCENT BONUS DEPRECIATION PROPERTY.—For purposes of this subsection, the term “50-percent bonus depreciation property” means property described in paragraph (2)(A)(i)—

(i) the original use of which commences with the taxpayer after May 5, 2003,

(ii) which is acquired by the taxpayer after May 5, 2003, and before January 1, 2006, but only if no written binding contract for the acquisition was in effect before May 6, 2003, and

(iii) which is placed in service by the taxpayer before January 1, 2006, or, in the case of property described in paragraph (2)(B) (as modified by subparagraph (C) of this paragraph), before January 1, 2007.

(C) SPECIAL RULES.—Rules similar to the rules of subparagraphs (B) and (D) of paragraph (2) shall apply for purposes of this paragraph; except that—

(i) references to September 10, 2001, shall be treated as references to May 5, 2003, and

(ii) references to September 11, 2001, shall be treated as references to May 6, 2003.

(D) AUTOMOBILES.—Paragraph (2)(E) shall be applied by substituting “\$9,200” for “\$4,600” in the case of 50-percent bonus depreciation property.

(E) ELECTION OF 30 PERCENT BONUS.—If a taxpayer makes an election under this subparagraph with respect to any class of property for any taxable year, subparagraph (A)(i) shall not apply to all property in such class placed in service during such taxable year.

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SEC. 172. NET OPERATING LOSS DEDUCTION.

(a) * * *

(b) NET OPERATING CARRYBACKS AND CARRYOVERS.—

(1) YEARS TO WHICH LOSS MAY BE CARRIED.—

(A) * * *

* * * * *

(H) 5-YEAR CARRYBACK OF CERTAIN LOSSES.—In the case of [a taxpayer which has] a net operating loss for any taxable year ending during 2001 [or 2002], 2002, 2003, 2004 or 2005, subparagraph (A)(i) shall be applied by substituting “5” for “2” and subparagraph (F) shall not apply.

* * * * *

SEC. 179. ELECTION TO EXPENSE CERTAIN DEPRECIABLE BUSINESS ASSETS.

(a) * * *

(b) LIMITATIONS.—

[(1) DOLLAR LIMITATION.—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed the following applicable amount:

If the taxable year begins in:	The applicable amount is:
1997	18,000
1998	18,500
1999	19,000
2000	20,000
2001 or 2002	24,000
2003 or thereafter	25,000]

(1) *DOLLAR LIMITATION.*—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed \$25,000 (\$100,000 in the case of taxable years beginning after 2002 and before 2008).

(2) *REDUCTION IN LIMITATION.*—The limitation under paragraph (1) for any taxable year shall be reduced (but not below zero) by the amount by which the cost of section 179 property placed in service during such taxable year exceeds \$200,000 (\$400,000 in the case of taxable years beginning after 2002 and before 2008).

* * * * *

(5) *INFLATION ADJUSTMENTS.*—

(A) *IN GENERAL.*—In the case of any taxable year beginning in a calendar year after 2003 and before 2008, the \$100,000 and \$400,000 amounts in paragraphs (1) and (2) shall each be increased by an amount equal to—

(i) such dollar amount, multiplied by

(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting “calendar year 2002” for “calendar year 1992” in subparagraph (B) thereof.

(B) *ROUNDING.*—

(i) *DOLLAR LIMITATION.*—If the amount in paragraph (1) as increased under subparagraph (A) is not a multiple of \$1,000, such amount shall be rounded to the nearest multiple of \$1,000.

(ii) *PHASEOUT AMOUNT.*—If the amount in paragraph (2) as increased under subparagraph (A) is not a multiple of \$10,000, such amount shall be rounded to the nearest multiple of \$10,000.

(c) *ELECTION.*—

(1) * * *

[(2) *ELECTION IRREVOCABLE.*—Any election made under this section, and any specification contained in any such election, may not be revoked except with the consent of the Secretary.]

(2) *REVOCATION OF ELECTION.*—An election under paragraph (1) with respect to any taxable year beginning after 2002 and before 2008, and any specification contained in any such election, may be revoked by the taxpayer with respect to any property. Such revocation, once made, shall be irrevocable.

(d) *DEFINITIONS AND SPECIAL RULES.*—

[(1) *SECTION 179 PROPERTY.*—For purposes of this section, the term “section 179 property” means any tangible property (to which section 168 applies) which is section 1245 property (as defined in section 1245(a)(3)) and which is acquired by purchase for use in the active conduct of a trade or business. Such term shall not include any property described in section 50(b) and shall not include air conditioning or heating units.]

(1) *SECTION 179 PROPERTY.*—For purposes of this section, the term “section 179 property” means property—

(A) which is—

(i) tangible property (to which section 168 applies),

or

(ii) computer software (as defined in section 197(e)(3)(B)) which is described in section 197(e)(3)(A)(i), to which section 167 applies, and which is placed in service in a taxable year beginning after 2002 and before 2008,
 (B) which is section 1245 property (as defined in section 1245(a)(3)), and
 (C) which is acquired by purchase for use in the active conduct of a trade or business.
 Such term shall not include any property described in section 50(b) and shall not include air conditioning or heating units.

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Subchapter C—Corporate Distributions and Adjustments

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PART I—DISTRIBUTIONS BY CORPORATIONS

Subpart A. Effects on recipients.

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【Subpart C. Definitions; constructive ownership of stock.】

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Subpart A—Effects on Recipients

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SEC. 301. DISTRIBUTIONS OF PROPERTY.

(a) * * *

* * * * *

(f) SPECIAL RULES.—

(1) * * *

* * * * *

(4) *For taxation of dividends received by individuals at capital gain rates, see section 1(h)(11).*

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SEC. 306. DISPOSITIONS OF CERTAIN STOCK.

(a) GENERAL RULE.—If a shareholder sells or otherwise disposes of section 306 stock (as defined in subsection (c))—

(1) Dispositions other than redemptions If such disposition is not a redemption (within the meaning of section 317(b))—

(A) * * *

* * * * *

(D) *TREATMENT AS DIVIDEND.*—For purposes of section 1(h)(11), any amount treated as ordinary income under this paragraph shall be treated as a dividend received from the corporation.

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PART II—CORPORATE LIQUIDATIONS

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Subpart B—Effects on Corporation

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SEC. 338. CERTAIN STOCK PURCHASES TREATED AS ASSET ACQUISITIONS.

(a) * * *

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(h) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

(1) * * *

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[(14) COORDINATION WITH SECTION 341.—For purposes of determining whether section 341 applies to a disposition within 1 year after the acquisition date of stock by a shareholder (other than the acquiring corporation) who held stock in the target corporation on the acquisition date, section 341 shall be applied without regard to this section.]

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[Subpart C—Collapsible Corporations**[Sec. 341. Collapsible corporations.****[SEC. 341. COLLAPSIBLE CORPORATIONS.****[(a) TREATMENT OF GAIN TO SHAREHOLDERS.—Gain from—****[(1) the sale or exchange of stock of a collapsible corporation,****[(2) a distribution—****[(A) in complete liquidation of a collapsible corporation if such distribution is treated under this part as in part or full payment in exchange for stock, or****[(B) in partial liquidation (within the meaning of section 302(e)) of a collapsible corporation if such distribution is treated under section 302(b)(4) as in part or full payment in exchange for the stock, and****[(3) a distribution made by a collapsible corporation which, under section 301(c)(3)(A), is treated, to the extent it exceeds the basis of the stock, in the same manner as a gain from the sale or exchange of property, to the extent that it would be considered (but for the provisions of this section) as gain from the sale or exchange of a capital asset shall, except as otherwise provided in this section, be considered as ordinary income.****[(b) DEFINITIONS.—****[(1) COLLAPSIBLE CORPORATION.—For purposes of this section, the term “collapsible corporation” means a corporation formed or availed of principally for the manufacture, construction, or production of property, for the purchase of property which (in the hands of the corporation) is property described in paragraph (3), or for the holding of stock in a corporation so formed or availed of, with a view to—**

[(A) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, before the realization by the corporation manufacturing, constructing, producing, or purchasing the property of $\frac{2}{3}$ of the taxable income to be derived from such property, and

[(B) the realization by such shareholders of gain attributable to such property.

[(2) PRODUCTION OR PURCHASE OF PROPERTY.—For purposes of paragraph (1), a corporation shall be deemed to have manufactured, constructed, produced, or purchased property, if—

[(A) it engaged in the manufacture, construction, or production of such property to any extent,

[(B) it holds property having a basis determined, in whole or in part, by reference to the cost of such property in the hands of a person who manufactured, constructed, produced, or purchased the property, or

[(C) it holds property having a basis determined, in whole or in part, by reference to the cost of property manufactured, constructed, produced, or purchased by the corporation.

[(3) SECTION 341 ASSETS.—For purposes of this section, the term “section 341 assets” means property held for a period of less than 3 years which is—

[(A) stock in trade of the corporation, or other property of a kind which would properly be included in the inventory of the corporation if on hand at the close of the taxable year;

[(B) property held by the corporation primarily for sale to customers in the ordinary course of its trade or business;

[(C) unrealized receivables or fees, except receivables from sales of property other than property described in this paragraph; or

[(D) property described in section 1231(b) (without regard to any holding period therein provided), except such property which is or has been used in connection with the manufacture, construction, production, or sale of property described in subparagraph (A) or (B).

In determining whether the 3-year holding period specified in this paragraph has been satisfied, section 1223 shall apply, but no such period shall be deemed to begin before the completion of the manufacture, construction, production, or purchase.

[(4) UNREALIZED RECEIVABLES.—For purposes of paragraph (3)(C), the term “unrealized receivables or fees” means, to the extent not previously includible in income under the method of accounting used by the corporation, any rights (contractual or otherwise) to payment for—

[(A) goods delivered, or to be delivered, to the extent the proceeds therefrom would be treated as amounts received from the sale or exchange of property other than a capital asset, or

[(B) services rendered or to be rendered.

[(c) PRESUMPTION IN CERTAIN CASES.—

[(1) IN GENERAL.—For purposes of this section, a corporation shall, unless shown to the contrary, be deemed to be a collapsible corporation if (at the time of the sale or exchange, or the distribution, described in subsection (a)) the fair market value of its section 341 assets (as defined in subsection (b)(3)) is—

[(A) 50 percent or more of the fair market value of its total assets, and

[(B) 120 percent or more of the adjusted basis of such section 341 assets.

Absence of the conditions described in subparagraphs (A) and (B) shall not give rise to a presumption that the corporation was not a collapsible corporation.

[(2) DETERMINATION OF TOTAL ASSETS.—In determining the fair market value of the total assets of a corporation for purposes of paragraph (1)(A), there shall not be taken into account—

[(A) cash,

[(B) obligations which are capital assets in the hands of the corporation, and

[(C) stock in any other corporation.

[(d) LIMITATIONS ON APPLICATION OF SECTION.—In the case of gain realized by a shareholder with respect to his stock in a collapsible corporation, this section shall not apply—

[(1) unless, at any time after the commencement of the manufacture, construction, or production of the property, or at the time of the purchase of the property described in subsection (b)(3) or at any time thereafter, such shareholder (A) owned (or was considered as owning) more than 5 percent in value of the outstanding stock of the corporation, or (B) owned stock which was considered as owned at such time by another shareholder who then owned (or was considered as owning) more than 5 percent in value of the outstanding stock of the corporation;

[(2) to the gain recognized during a taxable year, unless more than 70 percent of such gain is attributable to the property described in subsection (b)(1); and

[(3) to gain realized after the expiration of 3 years following the completion of such manufacture, construction, production, or purchase.

For purposes of paragraph (1), the ownership of stock shall be determined in accordance with the rules prescribed in paragraphs (1), (2), (3), (5), and (6) of section 544(a) (relating to personal holding companies); except that, in addition to the persons prescribed by paragraph (2) of that section, the family of an individual shall include the spouses of that individual's brothers and sisters (whether by the whole or half blood) and the spouses of that individual's lineal descendants. In determining whether property is described in subsection (b)(1) for purposes of applying paragraph (2), all property described in section 1221(a)(1) shall, to the extent provided in regulations prescribed by the Secretary, be treated as one item of property.

[(e) EXCEPTIONS TO APPLICATION OF SECTION.—

[(1) SALES OR EXCHANGES OF STOCK.—For purposes of subsection (a)(1), a corporation shall not be considered to be a collapsible corporation with respect to any sale or exchange of stock of the corporation by a shareholder, if, at the time of such sale or exchange, the sum of—

[(A) the net unrealized appreciation in subsection (e) assets of the corporation (as defined in paragraph (5)(A)), plus

[(B) if the shareholder owns more than 5 percent in value of the outstanding stock of the corporation the net unrealized appreciation in assets of the corporation (other than assets described in subparagraph (A)) which would be subsection (e) assets under clauses (i) and (iii) of paragraph (5)(A) if the shareholder owned more than 20 percent in value of such stock, plus

[(C) if the shareholder owns more than 20 percent in value of the outstanding stock of the corporation and owns, or at any time during the preceding 3-year period owned, more than 20 percent in value of the outstanding stock of any other corporation more than 70 percent in value of the assets of which are, or were at any time during which such shareholder owned during such 3-year period more than 20 percent in value of the outstanding stock, assets similar or related in service or use to assets comprising more than 70 percent in value of the assets of the corporation, the net unrealized appreciation in assets of the corporation (other than assets described in subparagraph (A)) which would be subsection (e) assets under clauses (i) and (iii) of paragraph (5)(A) if the determination whether the property, in the hands of such shareholder, would be property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as ordinary income, were made—

[(i) by treating any sale or exchange by such shareholder of stock in such other corporation within the preceding 3-year period (but only if at the time of such sale or exchange the shareholder owned more than 20 percent in value of the outstanding stock in such other corporation) as a sale or exchange by such shareholder of his proportionate share of the assets of such other corporation, and

[(ii) by treating any liquidating sale or exchange of property by such other corporation within such 3-year period (but only if at the time of such sale or exchange the shareholder owned more than 20 percent in value of the outstanding stock in such other corporation) as a sale or exchange by such shareholder of his proportionate share of the property sold or exchanged, does not exceed an amount equal to 15 percent of the net worth of the corporation. This paragraph shall not apply to any sale or exchange of stock to the issuing corporation or, in the case of a shareholder who owns more than 20 percent in value of the outstanding stock of the corporation, to any sale or ex-

change of stock by such shareholder to any person related to him (within the meaning of paragraph (8)).

[(5) SUBSECTION (E) ASSET DEFINED.—

[(A) For purposes of paragraph (1), the term “subsection (e) asset” means, with respect to property held by any corporation—

[(i) property (except property used in the trade or business, as defined in paragraph (9)) which in the hands of the corporation is, or, in the hands of a shareholder who owns more than 20 percent in value of the outstanding stock of the corporation, would be property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as ordinary income;

[(ii) property used in the trade or business (as defined in paragraph (9)), but only if the unrealized depreciation on all such property on which there is unrealized depreciation exceeds the unrealized appreciation on all such property on which there is unrealized appreciation;

[(iii) if there is net unrealized appreciation on all property used in the trade or business (as defined in paragraph (9)), property used in the trade or business (as defined in paragraph (9)) which, in the hands of a shareholder who owns more than 20 percent in value of the outstanding stock of the corporation, would be property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as ordinary income; and

[(iv) property (unless included under clause (i), (ii), or (iii)) which consists of a copyright, a literary, musical, or artistic composition, a letter or memorandum, or similar property, or any interest in any such property, if the property was created in whole or in part by the personal efforts of, or (in the case of a letter, memorandum, or similar property) was prepared, or produced in whole or in part for, any individual who owns more than 5 percent in value of the stock of the corporation.

The determination as to whether property of the corporation in the hands of the corporation is, or in the hands of a shareholder would be, property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as ordinary income; shall be made as if all property of the corporation had been sold or exchanged to one person in one transaction.

[(6) NET UNREALIZED APPRECIATION DEFINED.—

[(A) For purposes of this subsection, the term “net unrealized appreciation” means, with respect to the assets of a corporation, the amount by which—

[(i) the unrealized appreciation in such assets on which there is unrealized appreciation, exceeds

[(ii) the unrealized depreciation in such assets on which there is unrealized depreciation.

[(B) For purposes of subparagraph (A) and paragraph (5)(A), the term “unrealized appreciation” means, with respect to any asset, the amount by which—

[(i) the fair market value of such asset, exceeds

[(ii) the adjusted basis for determining gain from the sale or other disposition of such asset.

[(C) For purposes of subparagraph (A) and paragraph (5)(A), the term “unrealized depreciation” means, with respect to any asset, the amount by which—

[(i) the adjusted basis for determining gain from the sale or other disposition of such asset, exceeds

[(ii) the fair market value of such asset.

[(D) For purposes of this paragraph (but not paragraph (5)(A)), in the case of any asset on the sale or exchange of which only a portion of the gain would under any provision of this chapter be considered as ordinary income, there shall be taken into account only an amount of the unrealized appreciation in such asset which is equal to such portion of the gain.

[(7) NET WORTH DEFINED.—For purposes of this subsection, the net worth of a corporation, as of any day, is the amount by which—

[(A)(i) the fair market value of all its assets at the close of such day, plus

[(ii) the amount of any distribution in complete liquidation made by it on or before such day, exceeds

[(B) all its liabilities at the close of such day.

For purposes of this paragraph, the net worth of a corporation as of any day shall not take into account any increase in net worth during the one-year period ending on such day to the extent attributable to any amount received by it for stock, or as a contribution to capital or as paid-in surplus, if it appears that there was not a bona fide business purpose for the transaction in respect of which such amount was received.

[(8) RELATED PERSON DEFINED.—For purposes of paragraphs (1) and (4), the following persons shall be considered to be related to a shareholder:

[(A) If the shareholder is an individual—

[(i) his spouse, ancestors, and lineal descendants, and

[(ii) a corporation which is controlled by such shareholder.

[(B) If the shareholder is a corporation—

[(i) a corporation which controls, or is controlled by, the shareholder, and

[(ii) if more than 50 percent in value of the outstanding stock of the shareholder is owned by any person, a corporation more than 50 percent in value of the outstanding stock of which is owned by the same person.

For purposes of determining the ownership of stock in applying subparagraphs (A) and (B), the rules of section 267(c) shall apply, except that the family of an individual shall include only his spouse, ancestors, and lineal descendants. For purposes of

this paragraph, control means the ownership of stock possessing at least 50 percent of the total combined voting power of all classes of stock entitled to vote or at least 50 percent of the total value of shares of all classes of stock of the corporation.

[(9) PROPERTY USED IN THE TRADE OR BUSINESS.—For purposes of this subsection, the term “property used in the trade or business” means property described in section 1231(b), without regard to any holding period therein provided.

[(10) OWNERSHIP OF STOCK.—For purposes of this subsection (other than paragraph (8)), the ownership of stock shall be determined in the manner prescribed in subsection (d).

[(11) CORPORATIONS AND SHAREHOLDERS NOT MEETING REQUIREMENTS.—In determining whether or not any corporation is a collapsible corporation within the meaning of subsection (b), the fact that such corporation, or such corporation with respect to any of its shareholders, does not meet the requirements of paragraph (1), (2), (3), or (4) of this subsection shall not be taken into account, and such determination, in the case of a corporation which does not meet such requirements, shall be made as if this subsection had not been enacted.

[(12) NONAPPLICATION OF SECTION 1245(A), ETC.—For purposes of this subsection, the determination of whether gain from the sale or exchange of property would under any provision of this chapter be considered as ordinary income, shall be made without regard to the application of sections 617(d)(1), 1245(a), 1250(a), 1252(a), 1254(a), and 1276(a).

[(f) CERTAIN SALES OF STOCK OF CONSENTING CORPORATIONS.—

[(1) IN GENERAL.— Subsection (a)(1) shall not apply to a sale of stock of a corporation (other than a sale to the issuing corporation) if such corporation (hereinafter in this subsection referred to as “consenting corporation”) consents (at such time and in such manner as the Secretary may by regulations prescribe) to have the provisions of paragraph (2) apply. Such consent shall apply with respect to each sale of stock of such corporation made within the 6-month period beginning with the date on which such consent is filed.

[(2) RECOGNITION OF GAIN.—Except as provided in paragraph (3), if a subsection (f) asset (as defined in paragraph (4)) is disposed of at any time by a consenting corporation (or, if paragraph (3) applies, by a transferee corporation), then the amount by which—

[(A) in the case of a sale, exchange, or involuntary conversion, the amount realized, or

[(B) in the case of any other disposition, the fair market value of such asset, exceeds the adjusted basis of such asset shall be treated as gain from the sale or exchange of such asset. Such gain shall be recognized notwithstanding any other provision of this subtitle, but only to the extent such gain is not recognized under any other provision of this subtitle.

[(3) EXCEPTION FOR CERTAIN TAX-FREE TRANSACTIONS.—If the basis of a subsection (f) asset in the hands of a transferee

is determined by reference to its basis in the hands of the transferor by reason of the application of section 332, 351, or 361, then the amount of gain taken into account by the transferor under paragraph (2) shall not exceed the amount of gain recognized to the transferor on the transfer of such asset (determined without regard to this subsection). This paragraph shall apply only if the transferee—

 【(A) is not an organization which is exempt from tax imposed by this chapter, and

 【(B) agrees (at such time and in such manner as the Secretary may by regulations prescribe) to have the provisions of paragraph (2) apply to any disposition by it of such subsection (f) asset.

 【(4) SUBSECTION (F) ASSET DEFINED.—For purposes of this subsection—

 【(A) IN GENERAL.—The term “subsection (f) asset” means any property which, as of the date of any sale of stock referred to in paragraph (1), is not a capital asset and is property owned by, or subject to an option to acquire held by, the consenting corporation. For purposes of this subparagraph, land or any interest in real property (other than a security interest), and unrealized receivables or fees (as defined in subsection (b)(4)), shall be treated as property which is not a capital asset.

 【(B) PROPERTY UNDER CONSTRUCTION.—If manufacture, construction, or production with respect to any property described in subparagraph (A) has commenced before any date of sale described therein, the term “subsection (f) asset” includes the property resulting from such manufacture, construction, or production.

 【(C) SPECIAL RULE FOR LAND.—In the case of land or any interest in real property (other than a security interest) described in subparagraph (A), the term “subsection (f) asset” includes any improvements resulting from construction with respect to such property if such construction is commenced (by the consenting corporation or by a transferee corporation which has agreed to the application of paragraph (2)) within 2 years after the date of any sale described in subparagraph (A).

 【(5) 5-YEAR LIMITATION AS TO SHAREHOLDER.—Paragraph (1) shall not apply to the sale of stock of a corporation by a shareholder if, during the 5-year period ending on the date of such sale, such shareholder (or any related person within the meaning of subsection (e)(8)(A)) sold any stock of another consenting corporation within any 6-month period beginning on a date on which a consent was filed under paragraph (1) by such other corporation.

 【(6) SPECIAL RULE FOR STOCK OWNERSHIP IN OTHER CORPORATIONS.—If a corporation (hereinafter in this paragraph referred to as “owning corporation”) owns 5 percent or more in value of the outstanding stock of another corporation on the date of any sale of stock of the owning corporation during a 6-month period with respect to which a consent under paragraph (1) was filed by the owning corporation, such consent shall not

be valid with respect to such sale unless such other corporation has (within the 6-month period ending on the date of such sale) filed a valid consent under paragraph (1) with respect to sales of its stock. For purposes of applying paragraph (4) to such other corporation, a sale of stock of the owning corporation to which paragraph (1) applies shall be treated as a sale of stock of such other corporation. In the case of a chain of corporations connected by the 5-percent ownership requirements of this paragraph, rules similar to the rules of the two preceding sentences shall be applied.

[(7) ADJUSTMENTS TO BASIS.—The Secretary shall prescribe such regulations as he may deem necessary to provide for adjustments to the basis of property to reflect gain recognized under paragraph (2).

[(8) SPECIAL RULE FOR FOREIGN CORPORATIONS.—Except to the extent provided in regulations prescribed by the Secretary—

[(A) any consent given by a foreign corporation under paragraph (1) shall not be effective, and

[(B) paragraph (3) shall not apply if the transferee is a foreign corporation.]

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Subchapter E—Accounting Periods and Methods of Accounting

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PART II—METHODS OF ACCOUNTING

* * * * *

Subpart C—Taxable Year for Which Deductions Taken

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SEC. 467. CERTAIN PAYMENTS FOR THE USE OF PROPERTY OR SERVICES.

(a) * * *

* * * * *

(c) RECAPTURE OF PRIOR UNDERSTATED INCLUSIONS UNDER LEASEBACK OR LONG-TERM AGREEMENTS.—

(1) * * *

* * * * *

(5) SPECIAL RULES.—Under regulations prescribed by the Secretary—

(A) * * *

* * * * *

(C) for purposes of sections 170(e)[, 341(e)(12),] and 751(c), amounts treated as ordinary income under this section shall be treated in the same manner as amounts treated as ordinary income under section 1245 or 1250.

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Subchapter G—Corporations Used to Avoid Income Tax on Shareholders

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PART I—CORPORATIONS IMPROPERLY ACCUMULATING SURPLUS

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SEC. 531. IMPOSITION OF ACCUMULATED EARNINGS TAX.

In addition to other taxes imposed by this chapter, there is hereby imposed for each taxable year on the accumulated taxable income (as defined in section 535) of each corporation described in section 532, an accumulated earnings tax [equal to the product of the highest rate of tax under section 1(c) and the accumulated taxable income.] *equal to 15 percent of the accumulated taxable income.*

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PART II—PERSONAL HOLDING COMPANIES

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SEC. 541. IMPOSITION OF PERSONAL HOLDING COMPANY TAX.

In addition to other taxes imposed by this chapter, there is hereby imposed for each taxable year on the undistributed personal holding company income (as defined in section 545) of every personal holding company (as defined in section 542) a personal holding company tax [equal to the product of the highest rate of tax under section 1(c) and the undistributed personal holding company income.] *equal to 15 percent of the undistributed personal holding company income.*

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Subchapter H—Banking Institutions

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PART I—RULES OF GENERAL APPLICATION TO BANKING INSTITUTIONS

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SEC. 584. COMMON TRUST FUNDS.

(a) * * *

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(c) INCOME OF PARTICIPANTS IN FUND.—Each participant in the common trust fund in computing its taxable income shall include, whether or not distributed and whether or not distributable—

(1) * * *

* * * * *

The proportionate share of each participant in the amount of dividends received by the common trust fund and to which section

1(h)(11) applies shall be considered for purposes of such paragraph as having been received by such participant.

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Subchapter K—Partners and Partnerships

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PART I—DETERMINATION OF TAX LIABILITY

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SEC. 702. INCOME AND CREDITS OF PARTNER.

(a) **GENERAL RULE.**—In determining his income tax, each partner shall take into account separately his distributive share of the partnership's—

(1) * * *

* * * * *

[(5) dividends with respect to which there is a deduction under part VIII of subchapter B,]

(5) dividends with respect to which section 1(h)(11) or part VII of subchapter B applies,

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Subchapter M—Regulated Investment Companies and Real Estate Investment Trusts

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PART I—REGULATED INVESTMENT COMPANIES

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SEC. 854. LIMITATIONS APPLICABLE TO DIVIDENDS RECEIVED FROM REGULATED INVESTMENT COMPANY.

(a) **CAPITAL GAIN DIVIDEND.**—For purposes of section 1(h)(11) (relating to maximum rate of tax on dividends and interest) and section 243 (relating to deductions for dividends received by corporations), a capital gain dividend (as defined in section 852(b)(3)) received from a regulated investment company shall not be considered as a dividend.

(b) **OTHER DIVIDENDS.**—

(1) **AMOUNT TREATED AS DIVIDEND.**—

(A) * * *

(B) **MAXIMUM RATE UNDER SECTION 1(h).**—

(i) **IN GENERAL.**—If the aggregate dividends received by a regulated investment company during any taxable year are less than 95 percent of its gross income, then, in computing the maximum rate under section 1(h)(11), rules similar to the rules of subparagraph (A) shall apply.

(ii) **GROSS INCOME.**—For purposes of clause (i), in the case of 1 or more sales or other dispositions of stock or securities, the term “gross income” includes only the excess of—

(I) *the net short-term capital gain from such sales or dispositions, over*

(II) *the net long-term capital loss from such sales or dispositions.*

[(B)] (C) LIMITATION.—The aggregate amount which may be designated as dividends under subparagraph (A) or (B) shall not exceed the aggregate dividends received by the company for the taxable year.

(2) NOTICE TO SHAREHOLDERS.—The amount of any distribution by a regulated investment company which may be taken into account as a dividend for purposes of *the maximum rate under section 1(h)(11) and the deduction under section 243* shall not exceed the amount so designated by the company in a written notice to its shareholders mailed not later than 60 days after the close of its taxable year.

* * * * *

(5) COORDINATION WITH SECTION 1(h)(11).—*For purposes of paragraph (1)(B), an amount shall be treated as a dividend only if the amount is qualified dividend income (within the meaning of section 1(h)(11)(B)).*

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PART II—REAL ESTATE INVESTMENT TRUSTS

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SEC. 857. TAXATION OF REAL ESTATE INVESTMENT TRUSTS AND THEIR BENEFICIARIES.

(a) * * *

* * * * *

[(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RECEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—For purposes of section 243 (relating to deductions for dividends received by corporations), a dividend received from a real estate investment trust which meets the requirements of this part shall not be considered as a dividend.]

(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RECEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

(1) SECTION 243.—*For purposes of section 243 (relating to deductions for dividends received by corporations), a dividend received from a real estate investment trust which meets the requirements of this part shall not be considered a dividend.*

(2) SECTION 1(h)(11).—*For purposes of section 1(h)(11) (relating to maximum rate of tax on dividends), rules similar to the rules of section 854(b)(1)(B) shall apply to dividends received from a real estate trust which meets the requirements of this part.*

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Subchapter P—Capital Gains and Losses

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**PART IV—SPECIAL RULES FOR DETERMINING CAPITAL
GAINS AND LOSSES**

* * * * *

SEC. 1255. GAIN FROM DISPOSITION OF SECTION 126 PROPERTY.

(a) * * *

(b) **SPECIAL RULES.**—Under regulations prescribed by the Secretary—

(1) * * *

(2) for purposes of sections 170(e)【, 341(e)(12),】 and 751(c), amounts treated as ordinary income under this section shall be treated in the same manner as amounts treated as ordinary income under section 1245.

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SEC. 1257. DISPOSITION OF CONVERTED WETLANDS OR HIGHLY ERODIBLE CROPLANDS.

(a) * * *

* * * * *

(d) **SPECIAL RULES.**—Under regulations prescribed by the Secretary, rules similar to the rules applicable under section 1245 shall apply for purposes of subsection (a). For purposes of sections 170(e)【, 341(e)(12),】 and 751(c), amounts treated as ordinary income under subsection (a) shall be treated in the same manner as amounts treated as ordinary income under section 1245.

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Subchapter Y—New York Liberty Zone Benefits

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SEC. 1400L. TAX BENEFITS FOR NEW YORK LIBERTY ZONE.

(a) * * *

(b) **SPECIAL ALLOWANCE FOR CERTAIN PROPERTY ACQUIRED AFTER SEPTEMBER 10, 2001.**—

(1) * * *

(2) **QUALIFIED NEW YORK LIBERTY ZONE PROPERTY.**—For purposes of this subsection—

(A) * * *

* * * * *

(C) **EXCEPTIONS.**—

(i) 【30 PERCENT ADDITIONAL ALLOWANCE PROPERTY】 *BONUS DEPRECIATION PROPERTY UNDER SECTION 168(k).*—Such term shall not include property to which section 168(k) applies.

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**CHAPTER 3—WITHHOLDING OF TAX ON NON-
RESIDENT ALIENS AND FOREIGN CORPORATIONS**

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Subchapter A—Nonresident Aliens and Foreign Corporations

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SEC. 1445. WITHHOLDING OF TAX ON DISPOSITIONS OF UNITED STATES REAL PROPERTY INTERESTS.

(a) * * *

* * * * *

(e) SPECIAL RULES RELATING TO DISTRIBUTIONS, ETC., BY CORPORATIONS, PARTNERSHIPS, TRUSTS, OR ESTATES.—

(1) CERTAIN DOMESTIC PARTNERSHIPS, TRUSTS, AND ESTATES.—In the case of any disposition of a United States real property interest as defined in section 897(c) (other than a disposition described in paragraph (4) or (5)) by a domestic partnership, domestic trust, or domestic estate, such partnership, the trustee of such trust, or the executor of such estate (as the case may be) shall be required to deduct and withhold under subsection (a) a tax equal to 35 percent (or, to the extent provided in regulations, [20] 15 percent) of the gain realized to the extent such gain—

(A) * * *

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Subtitle F—Procedure and Administration

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CHAPTER 65—ABATEMENTS, CREDITS, AND REFUNDS

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Subchapter B—Rules of Special Application

Sec. 6411. Tentative carryback and refund adjustments.

* * * * *

Sec. 6429. Advance payment of portion of increased child credit for 2003.

* * * * *

SEC. 6429. ADVANCE PAYMENT OF PORTION OF INCREASED CHILD CREDIT FOR 2003.

(a) *IN GENERAL.*—Each taxpayer who claimed a credit under section 24 on the return for the taxpayer's first taxable year beginning in 2002 shall be treated as having made a payment against the tax imposed by chapter 1 for such taxable year in an amount equal to the child tax credit refund amount (if any) for such taxable year.

(b) *CHILD TAX CREDIT REFUND AMOUNT.*—For purposes of this section, the child tax credit refund amount is the amount by which the aggregate credits allowed under part IV of subchapter A of chapter 1 for such first taxable year would have been increased if—

(1) the per child amount under section 24(a)(2) for such year were \$1,000,

(2) only qualifying children (as defined in section 24(c)) of the taxpayer for such year who had not attained age 17 as of December 31, 2003, were taken into account, and

(3) section 24(d)(1)(B)(ii) did not apply.

(c) **TIMING OF PAYMENTS.**—In the case of any overpayment attributable to this section, the Secretary shall, subject to the provisions of this title, refund or credit such overpayment as rapidly as possible and, to the extent practicable, before October 1, 2003. No refund or credit shall be made or allowed under this section after December 31, 2003.

(d) **COORDINATION WITH CHILD TAX CREDIT.**—

(1) **IN GENERAL.**—The amount of credit which would (but for this subsection and section 26) be allowed under section 24 for the taxpayer's first taxable year beginning in 2003 shall be reduced (but not below zero) by the payments made to the taxpayer under this section. Any failure to so reduce the credit shall be treated as arising out of a mathematical or clerical error and assessed according to section 6213(b)(1).

(2) **JOINT RETURNS.**—In the case of a payment under this section with respect to a joint return, half of such payment shall be treated as having been made to each individual filing such return.

(e) **NO INTEREST.**—No interest shall be allowed on any overpayment attributable to this section.

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CHAPTER 77—MISCELLANEOUS PROVISIONS

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SEC. 7518. TAX INCENTIVES RELATING TO MERCHANT MARINE CAPITAL CONSTRUCTION FUNDS.

(a) * * *

* * * * *

(g) **TAX TREATMENT OF NONQUALIFIED WITHDRAWALS.**—

(1) * * *

* * * * *

(6) **NONQUALIFIED WITHDRAWALS TAXED AT HIGHEST MARGINAL RATE.**—

(A) **IN GENERAL.**—In the case of any taxable year for which there is a nonqualified withdrawal (including any amount so treated under paragraph (5)), the tax imposed by chapter 1 shall be determined—

(i) * * *

* * * * *

With respect to the portion of any nonqualified withdrawal made out of the capital gain account during a taxable year to which section 1(h) or 1201(a) applies, the rate of tax taken into account under the preceding sentence shall not

exceed **[20]** 15 percent (34 percent in the case of a corporation).

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ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001

* * * * *

TITLE III—MARRIAGE PENALTY RELIEF

SEC. 301. ELIMINATION OF MARRIAGE PENALTY IN STANDARD DEDUCTION.

(a) * * *

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(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, **[2004]** 2002.

SEC. 302. PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET.

(a) * * *

* * * * *

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, **[2004]** 2002.

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SECTION 102 OF THE JOB CREATION AND WORKER ASSISTANCE ACT OF 2002

SEC. 102. CARRYBACK OF CERTAIN NET OPERATING LOSSES ALLOWED FOR 5 YEARS; TEMPORARY SUSPENSION OF 90 PERCENT AMT LIMIT.

(a) * * *

* * * * *

(c) TEMPORARY SUSPENSION OF 90 PERCENT LIMIT ON CERTAIN NOL CARRYOVERS.—

(1) * * *

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to taxable years ending **[before January 1, 2003]** *after December 31, 1990*.

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SECTION 607 OF THE MERCHANT MARINE ACT, 1936

SEC. 607. (a) * * *

* * * * *

(h) Tax Treatment of Nonqualified Withdrawals.

(1) * * *

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(6) NONQUALIFIED WITHDRAWALS TAXED AT HIGHEST MARGINAL RATE.—

(A) IN GENERAL.—In the case of any taxable year for which there is a nonqualified withdrawal (including any amount so treated under paragraph (5)), the tax imposed by chapter 1 of the Internal Revenue Code of 1986 shall be determined—

(i) * * *

* * * * *

With respect to the portion of any nonqualified withdrawal made out of the capital gain account during a taxable year to which section 1(h) or 1201(a) of such Code applies, the rate of tax taken into account under the preceding sentence shall not exceed **[20]** 15 percent (34 percent in the case of a corporation).

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